

1031 EXCHANGE

CHECKLIST

RESOURCES



This 1031 exchange checklist is intended to provide a brief overview of the steps involved in an IRC Section 1031 tax-deferred exchange. This checklist does not address all issues involved in an exchange. Investors should always seek the advice of their tax and/or legal advisors regarding their specific situation.

1. Select a Qualified Intermediary A Qualified Intermediary, or QI, is an independent third party to the transaction whose function is to prepare the documents necessary to create the exchange, as well as to act as the independent escrow agent for the exchange funds. Because QI's will be holding your funds it is important that you obtain a copy of their Fidelity Bond and insist that the funds are held in a segregated escrow account. Fortitude Investments is always happy to provide a copy of our Fidelity Bond and let our clients interact with our depositing bank. 2. Choose your professionals Although it is not mandatory, it is recommended to have an accountant and a Real Estate Attorney in addition to a Qualified Intermediary help facilitate your exchange. 3. Make sure you have the proper language in your contract or purchase and sale agreement Although it is not a requirement, it is good practice to modify your contract or purchase and sale agreement to reflect your 1031 exchange transaction. This language is commonly known as the "exchange cooperation clause addendum". 4. Have Qualified Intermediary prepare your exchange documents In addition to holding the exchange funds, a QI's role is to prepare the 1031 exchange documents that will convert your transaction into an exchange. Without 1031 documents your sale will most likely be a taxable event even though you reinvest the funds in a new property. Fortitude Investments will work with your Qualified Intermediary and assist you in completing all necessary documents correctly. 5. Start looking for replacement property Since exchangers only have 45 days from the date of the sale of their first relinquished property to

find their new replacement property, it is often good practice to begin looking before your first sale takes place. The 45 day identification period does not begin to run until the actual sale of the first relinquished property and not the contract signing date. You may enter into a contract to purchase before you sell, you may "identify" properties that you may like to purchase, but you may not make an

official 1031 identification until you have sold at least one of your relinquished properties.



6. Sell your relinquished property

Once the exchange documents have been prepared by the qualified intermediary, a closing can be scheduled to sell the property just like any other closing. It is important to remember that after closing costs and any debts have been paid, the net proceeds from the sale must come directly to the qualified intermediary unless you are structuring your transaction as a partially deferred exchange. Your attorney, or any other disqualified party, may not take control of the proceeds from the closing before sending them to the qualified intermediary.

7. Balance the exchange

In order to have a fully tax deferred exchange an exchanger must:

- 1. buy for as much as it sold for
- 2. utilize all of the cash proceeds received from the sale to purchase the replacement property
- 3. obtain as much financing on the replacement property as was paid off on the relinquished property
- 4. obtain nothing but like kind property when purchasing the replacement property. If an exchanger violates any or all of these rules he/she may still have a valid exchange but will recognize some capital gains tax.

8. Identify replacement property

The exchanger must identify potential replacement property by midnight of the 45th day from the sale of the first relinquished property. Fortitude Investments provides a form to identify the property with each set of exchange documentation. This form must be filled out and sent to Fortitude Investments by fax or mail.

9. Enter into contract or purchase and sale agreement for replacement property

Once the exchanger has decided on the replacement property or properties to be purchased, a contract to purchase the properties must be entered into. As a matter of practice, these contracts should also have the exchange cooperation clause language added to them.



10. Confirm that tax ID number or social security number is the same on both sides of the transaction

With very limited exception the tax ID number or social security number of the selling person or entity must be the same number when that person or entity is purchasing the replacement property. An exchanger may not sell as an individual and buy in as a corporation even if that individual owns 100% of the new entity. Exchangers may sell and purchase as tenants in common, or, in certain circumstances, in new entities such as single member limited liability companies or a Delaware Statutory Trust (DST). If the exchanging person or entity is not the same on both sides of the transaction please check with your tax or legal advisor before continuing the exchange.

11. Have Qualified Intermediary prepare 1031 replacement property purchase documents.

Once the exchanger has entered into a contract or purchase and sale agreement to purchase the replacement property or properties those contracts should be forwarded to the QI so that it can prepare the replacement property exchange documents. In order to make the purchase, the QI must assign into the transaction.

12. Notify the Qualified Intermediary of the closing and purchase of the replacement property.

In addition to the documents that must be prepared for the closing, the qualified intermediary will need to send the exchange funds that it is holding from the sale property to make the purchase of the replacement property. Remember to notify Fortitude Investments at least a day in advance of your closing to request the exchange funds to make your purchase. Fortitude Investments can arrange for a wire transfer of the exchange funds or a bank check to make the purchase. You must take title to the replacement property (properly identified property) within 180 days after the sale of the relinquished property.



Fortitude Investment Group is committed to helping investors pursue their financial goals through securitized real estate investment such as Delaware Statutory Trust (DST) and Tenant in Common (TIC) offerings for 1031 exchange. As an independent branch office of Concorde Investment Services, LLC, we can offer professional assistance in identifying and closing on a securitized real estate investment that meets your investment objectives and satisfies your 1031 exchange requirements. Concorde Investments Services, LLC is a national securities broker-dealer registered with FINRA to solicit securities products in all 50 states and several territories. With the access they provide to a wide range of financial products and services, we believe we can provide the information to better enable investors to identify goals and make sound decisions to help reach them.



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